

Our response to the UK government's consultation on climate transition plan requirements (the consultation)

Hymans Robertson LLP is an independent UK partnership advising pension funds, corporate sponsors and other long-term investors on funding, investment and risk. We help pension fund trustees and companies understand climate-related financial risks and opportunities, and how to turn them into practical actions.

As members of the Investment Consultants Sustainability Working Group (ICSWG), we've provided input to, and are supportive of, the ICSWG's collective response to the consultation, 'Transition plan requirements consultation', published by the UK government's Department of Energy Security & Net Zero. There are certain areas of this response that we would like to emphasise, which are set out in this paper.

Our headline messages

- The purpose of transition plans should be to understand risks, prioritise resource and take action.
- Plans should be required, particularly for companies in high-emitting or climate-sensitive sectors. However, these should be principles-based and flexible, rather than prescriptive.
- Requirements should be accompanied by evolved Taskforce on Climate-related Financial Disclosures (TCFD) specifications to reduce the overall reporting burden but should not be limited to those already in scope of TCFD.
- Plans for pension funds should acknowledge their role in the investment value chain, and the means of influence available to them (with emphasis on capital allocation and stewardship), while recognising the context of fiduciary duty.
- The greatest hurdle to economically viable climate action at scale is policy uncertainty (across all regions of the world). Leadership from the UK government in pioneering regulation, frameworks and capital markets would cascade benefits to other markets.
- Plans can support real-world outcomes such as emissions reduction and improved climate resilience, in addition to reducing the uncertainty of financial outcomes for UK investors.

The role of transition plans

Transition plans should focus on action – not reporting

We support the development of transition plans.

These should focus on defining the broad activities an organisation expects to take to adapt to, or mitigate against, climate-related risks and opportunities, rather than adopting a new backward-looking approach.

Transition plan disclosures could coincide with a natural evolution of TCFD requirements. In other words, a plan sets the forward strategy, actions and measures of success, while annual TCFD (or UK SRS) reporting records progress. This places the focus where it should be: on forward-looking action, rather than backward-looking data, while remaining proportionate.

The purpose of transition plans should be to document the understanding of climate-related risks, articulate the position on net zero, prioritise resource and plan action

We believe that corporate transition plans should set out, in plain terms: (i) the change that a business expects to go through (and why); (ii) material risks and opportunities; (iii) actions, and means of assessing progress through milestones and metrics; (iv) cost/benefit trade-offs and capital needs; (v) hurdles to implementation; (vi) governance and accountability; and (vii) whether the plan has been externally assured. For companies, plans should help prioritise internal resource where it matters most, supporting long-term value creation.

Moreover, it's important to note the significant role of asset managers in the investment value chain, which includes understanding individual companies, having access to management, leveraging climate expertise and tools, and acting on behalf of investors. Requirements for these financial institutions should also include disclosure regarding assets under management, not just the firm itself.

For investors, such disclosure requirements are decision-useful; they improve understanding of corporate strategy, risk, opportunity and financing needs, as well as asset manager efforts and capabilities. Where plans are poor, investors can communicate concerns through stewardship activity or reallocate capital.

For pension funds, plans hold some relevance, but more emphasis should be on the means of influence available to trustees – mainly through **where they invest** (capital allocation and manager selection) and **how they steward** assets (including setting manager expectations and voting), in addition to embedding climate considerations within scheme governance (beliefs, training, targets and policies). Pension fund transition plans would help regulators and other stakeholders better understand climate-related systemic risks. Notably, the interaction between the transition to a low-carbon economy and trustee fiduciary duty should be articulated in these plans.

Implementation options

Require plans and action, not just explanations

Regarding implementation of regulation, we're supportive of mandating entities to develop and disclose transition plans, rather than allowing companies to explain why they haven't disclosed this information (since, in our view, this leaves too much room for avoidance). We believe transition plans should be supplemented by an evolution of TCFD reporting, which would focus on recording progress on implementation. We think plans are most important for more companies in sectors where emissions are hard to reduce, or where sectors are particularly climate sensitive (there is plenty of evidence pointing to these sectors). A phased approach would allow resource to develop. Clear guidance on the maximum reporting length for implementation disclosure would contain reporting and focus efforts on effective communication.

Keep the ecosystem coherent and flexible, rather than prescriptive and burdensome

Market mechanisms alone are unlikely to ensure the development of transition plans, as broad uptake is typically driven by regulation. If the government explores mandatory implementation for companies, we propose high-level and flexible disclosure requirements, rather than prescriptive regulation (which might unnecessarily communicate corporate intention) or 'tick-box' approaches. For pension funds, mandating should be a requirement to develop plans and embed delivery through governance, capital allocation and stewardship, rather than a duty to hit net-zero alignment targets, which risks conflicting with fiduciary duty.

Plans should focus on action to decarbonise but also improve resilience to climate-related risk

We support transition plans aligning to net zero by 2050 and the ambitions of the Paris Agreement, but we encourage them to highlight the difference between decarbonisation (mitigation) and climate resilience (adaptation). Entities may consider decarbonisation to not be material or cost effective (such disclosure would signal to regulators where more attention is required to address market failure), but all should assess how they can manage risk.

Nature: an evolving area for disclosure

We believe that nature and climate are intrinsically linked; therefore, climate transition plans should include nature as a theme.

While nature-related frameworks are evolving, they remain nascent and data is often unreliable, so a proportionate approach is initially needed in terms of metrics. A qualitative approach to considering the interaction with nature would be appropriate in early years. This is how we approach nature in the climate transition plans we create with our clients.

Implementation options: pension fund-specific questions (13 and 14)

Transition plan requirements should be accompanied by evolved TCFD reporting requirements, which should shift focus to implementation and forward-looking metrics

TCFD already includes various relatively static elements regarding governance and context. This would sit more comfortably in a transition plan than an annual disclosure, with other elements detailed above. Annual reporting could then focus on implementation progress in a similar manner to the 2026 Stewardship Code reporting regime, reducing trustees' reporting burden. There are several issues with current TCFD reporting; however, through consolidation with transition plans, many of these can be addressed. We set these out below:

- ◆ TCFD requirements are too restrictive, complicated and time consuming in terms of reporting requirements, which can risk a 'box-ticking' approach.
- ◆ There is too much emphasis on portfolio emissions, creating a disconnect to real-world emissions reductions. This can result in a narrow view of climate risk and opportunity as it relates to the real world and the low-carbon transition.
- ◆ Current regulation does not capture smaller schemes or Local Government Pension Schemes.

In summary, transition plans, alongside revised (simpler) requirements for TCFD, would provide a more meaningful way for pension schemes to articulate and demonstrate actions that align with driving real-economy change.

Furthermore, despite being nuanced, existing emissions metrics are a valuable reference point. But a more rounded/holistic approach, alongside forward-looking measures, is needed. Alignment measures are useful to assess the actions taken by underlying companies or investments to align with a net-zero future, and to therefore inform either capital allocation decisions or engagement activity to improve this. However, to link this with fiduciary duty, it is vital to assess the economics and terms of what is now a fragmented transition from a policy perspective. Therefore, forward-looking measures – in terms of capital expenditure and readiness for a low-carbon world – need to be better understood. Corporate climate transition plans can provide this information. While metrics should be used to support oversight, a rounded set of forward-looking measures is key.

In practice, reporting should become less burdensome overall

It would require:

- 1. One additional policy document:** For many pension funds, this is drawn largely from existing TCFD materials but with a focus on action to be taken.
- 2. Evolution of annual climate reporting:** Evolve TCFD reporting to focus on implementation and progression of plans, with inclusion of a well-rounded set of forward-looking metrics and disclosure against planned action. This framework (plans, annual implementation reports) would be flexible to allow greater breadth and integration of sustainability reporting over time. In the longer term, we would hope to see composite sustainability reporting encompassing the various environmental and social aspects.
- 3. Well-reasoned guidance:** This should explicitly permit allocation to credible high-emitting transition leaders and climate solutions – avoiding perverse incentives to divest from high-emitting companies at the expense of financing or encouraging the transition.

Transition plans are not widely produced by pension funds – those that are vary but are typically action focused

Most UK pension schemes do not have a formal transition plan. Where plans do exist, they're usually less extensive than envisaged in this consultation (with the TPT being referred to) and aren't typically published in full.

Pension schemes with transition plans are generally those with a very long-term horizon such as Local Government Pension Schemes, which have established net-zero commitments and/or beliefs, are better resourced due to their scale, and have a strong focus on member communication.

Transition plans don't exist in isolation; they build on climate-related training and risk reporting. Therefore, information that's commercially available or provided by asset managers is used to identify a starting point. This includes metrics such as portfolio emissions and intensity, net-zero alignment, and exposure to green revenues or

fossil fuels. Credible, forward-looking data relies on broad and good-quality corporate disclosure, which the proposed requirements seek to improve. As a result, assurance of transition plan credibility has become a key indicator. There is limited information on physical risks and their effects on companies and supply chains; transition plans should not be hindered by these, nor should they seek to deliver them. Rather, they should encourage companies to improve through forward planning.

Challenges to decarbonisation vary, but policy uncertainty tops the list

Corporate action at scale and at the lowest cost requires stable policy environments (including reduced geopolitical instability) and long-term communication. Data limitations also hinder corporate action. While economic effects and exact climate scenarios are uncertain, the lack of information on physical risks to companies and the likely cost of inaction makes it harder to establish the need for climate action, as a clear cost/benefit analysis over multiple decades is highly complex. Requirements should recognise this obstacle and remain flexible rather than prescriptive. But equally, corporates must attempt to assess the short- and medium-term impacts of both transition and physical climate risks. Long-term assessments may lead to inaction.

Transition planning must remain consistent with fiduciary duty

Some asset owners have concerns around alignment to certain climate scenarios (eg +1.5°C or +2°C), given that global policy does not currently support this ambition. Where targets are more ambitious than overall markets, portfolios that seek alignment with a specific warming outcome (eg +1.5°C) may be less diversified. Moreover, they might offer a suboptimal risk-return profile, due to the narrower investable universe (or naïvely avoid higher-emitting climate solutions), which may be inconsistent with fiduciary duty. Transition plans can help to articulate these issues and seek pragmatic approaches. We do not seek to comment on legal implications, as we are not legal experts.

Climate scenario modelling should be pragmatic

We consider 'under +2°C' to be a reasonable scenario due to its alignment with the Paris Agreement. However, given the lack of policy alignment with a '+1.5°C in 2050' target (and its proximity), companies are most likely preparing for a scenario that is anticipated to pass soon, which would result in underestimation of risks and inadequate action. Therefore 'under 2°C' is likely more pragmatic and decision useful. We recognise the Office for Budget Responsibility uses 'under 2°C' and 'under 3°C' as scenarios over this timeframe in its fiscal risks and sustainability report.

Regarding enhanced risk scenarios, we consider '+3°C' to be a reasonable upper-end scenario, given it is considered a likely outcome under current policy conditions. While enhanced risk planning (such as '+4°C') might seek to recognise more adverse climate effects, modelling for these scenarios is highly uncertain; therefore, it would be inconsistent with the government's aim of proportionate disclosure. Voluntary enhanced risk assessment for pension funds might be better implemented through stress testing across a range of macroeconomic effects, to understand the effects of more extreme outcomes. We are not currently aware of enhanced risk planning at pension fund level; however, the industry is evolving to capture narrative climate scenarios, to better articulate economic impacts, and to capture system-wide interconnections and tipping points.

Related policy and frameworks

Transition plans support the UK's net-zero ambitions and leadership in sustainable finance

As a service-based economy with a strong financial sector, the UK is well placed to pioneer climate-related standards and frameworks. Transition plans can help understand capital expenditure needs and direct investment across the private and public sector, which is a market the UK finance sector can facilitate. Therefore, the UK can support international partners in developing credible and consistent policy, while recognising the varying starting points, priorities and politics of countries and regions, which will likely take different pathways to net zero.

Transition planning can cascade benefits to other markets

Transition planning would be pioneering regulation that could pave the way for others. Where risk assessments include global supply chains, there may be incentive for other markets to improve disclosure. We reiterate that transition plans should not be a means of reporting, nor should they seek to explicitly address a data issue; rather, they should be action focused. Transition plans could incentivise companies to engage with their supply chains and, where appropriate, encourage greater disclosure or risk mitigation.

Voluntary carbon markets may form part of corporate plans, but have different applications for pension funds

We recognise that high-integrity carbon credits may reasonably feature in corporate transition plans, particularly for hard-to-abate sectors or where decarbonisation solutions are not yet available. Additionally, we support the goals of scaling a credible carbon market. However, for pension funds, the focus should remain on action through capital allocation and stewardship. We do not currently consider the purchase of carbon offsets, suggesting a better net-zero position, to be consistent with fiduciary duty. Investors may, however, own assets that are negatively emitting and sell offsets to improve overall returns. Development of an international framework for carbon credits would support sustainable investment in emerging markets or redirect capital towards climate solutions, which the UK could lead.

The UK government could provide support for less well-resourced companies

Where transition planning relates to hard-to-abate or highly climate-sensitive sectors, we note that not all companies will be suitably resourced for transition planning or voluntary enhanced risk assessment. The UK government could develop central guidance and tools for assistance. Clear policy direction, scenario assumptions and hazard mapping would help companies understand risks and take proportionate action. For smaller entities, public training and simplified frameworks would enable meaningful engagement with transition planning without imposing additional disclosure. This could include: supporting less well-resourced pension funds through training, setting clear guidance for voluntary disclosure, and stress-testing frameworks to understand the implications of adverse macroeconomic conditions.



Conclusion

Transition plans should identify and prioritise action on climate-related risks and the pursuit of net zero. This would vary across entities, so disclosure should be flexible, principled and materiality focused to be decision useful. In doing so, transition plan requirements can assist corporate and asset owner (pension fund) decision-making. TCFD requirements should evolve to reflect the implementation of transition plans, emphasising forward-looking metrics and progress against commitments.

For pension schemes, transition plans are most effective when focused on the means of influence available to asset owners (eg capital allocation and stewardship), as well as governance. Moreover, they should be set in the context of fiduciary duties. We believe that the introduction of transition plan requirements, coupled with the evolution of TCFD requirements, could reduce the reporting burden, supporting the UK in achieving its net-zero ambitions and acting as a leader on sustainable finance. Plans can help pension funds identify and act on climate-related investment risks and opportunities. This, in turn, supports the global goal of net zero, improving outcomes for UK investors.



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